

**City of Montezuma
Municipal Light and Power Plant**

**Independent Auditor's Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs**

June 30, 2004

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City of Montezuma
Municipal Light and Power Plant

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Alexander	Light Plant Trustee	August 2005
Don Hall	Light Plant Trustee	August 2009
Dean Hubbard	Light Plant Trustee	August 2007
Don Fahlenkamp	Plant Superintendent	

Independent Auditor's Report

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and aggregate remaining fund information of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, as of and for the year ended June 30, 2004, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma Municipal Light and Power Plant's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Montezuma Municipal Light and Power Plant as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the Utility adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 4, 2004 on our consideration of the City of Montezuma Light and Power Plant's internal control

over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 15 through 16 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

August 4, 2004

Management's Discussion and Analysis

City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

Because the Utility is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utility's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the Utility increased 265%, or approximately \$5,044,000, from fiscal 2003 to fiscal 2004. This is primarily due to \$5,150,000 of bond proceeds.
- Disbursements increased 74%, or approximately \$1,136,000, in fiscal 2004 from fiscal 2003. Capital outlay totaled \$859,000.
- The Utility's total cash basis net assets increased 315%, or approximately \$4,276,000 from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

- Business Type Activities include electric service . These activities are financed primarily by user charges.

Fund Financial Statements

The Utility has only proprietary funds.

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance increased sharply from a year ago, increasing from \$1,358,322 to \$5,634,134. The analysis that follows focuses on the changes in cash balances.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 1,855	1,794
General receipts:		
Unrestricted interest on investments	16	31
Bond proceeds	5,150	0
Other general receipts	0	81
Total receipts	<u>7,021</u>	<u>1,906</u>
Disbursements and transfers:		
Electric	<u>2,745</u>	<u>1,538</u>
Total disbursements and transfers	<u>2,745</u>	<u>1,538</u>
Increase (decrease) in cash balance	4,276	368
Cash basis net assets beginning of year	<u>1,358</u>	<u>990</u>
Cash basis net assets end of year	<u>\$ 5,634</u>	<u>1,358</u>

Total business type activities receipts for the fiscal year were \$7.021 million compared to \$1.906 million last year. This significant increase was due primarily to the receipt of \$5.150 million electric revenue bond proceeds. The cash balance increased by approximately \$4,276,000 from the prior year because most of the bond proceeds received will not be spent until next fiscal year. Total disbursements and transfers for the fiscal year increased by 74% to a total of \$2.745 million.

The Montezuma Municipal Light and Power Plant has no governmental activities.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance increased by \$4,276,000 to \$5,634,000, due primarily to the receipt of \$5,150,000 in electric revenue bond proceeds.

DEBT ADMINISTRATION

At June 30, 2004, the Utility had approximately \$5,450,000 in bonds and other long-term debt, compared to approximately \$355,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
Revenue notes	\$ <u>5,450,000</u>	<u>355,000</u>
Total	\$ <u>5,450,000</u>	<u>355,000</u>

Debt increased as a result of issuing revenue bonds for an electric plant project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Montezuma Light Plant's officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various Utility activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Fahlenkamp, Montezuma, Iowa.

City of Montezuma
Municipal Light and Power Plant
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Exhibit A

			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Disbursements	Charges for Service	Business Type Activities	Total
Functions / Programs:				
Business type activities:				
Electric	\$ <u>2,675,031</u>	<u>1,840,210</u>	(<u>834,821</u>)	(<u>834,821</u>)
Total business type activities	<u>2,675,031</u>	<u>1,840,210</u>	(<u>834,821</u>)	(<u>834,821</u>)
Total	\$ <u>2,675,031</u>	<u>1,840,210</u>	(<u>834,821</u>)	(<u>834,821</u>)
General Receipts:				
Grants and contributions not restricted to specific purpose			14,675	14,675
Unrestricted interest on investments			16,431	16,431
Bond proceeds			<u>5,079,527</u>	<u>5,079,527</u>
Total general receipts and transfers			<u>5,110,633</u>	<u>5,110,633</u>
Change in cash basis net assets			4,275,812	4,275,812
Cash basis net assets beginning of year, as restated			<u>1,358,322</u>	<u>1,358,322</u>
Cash basis net assets end of year			\$ <u>5,634,134</u>	\$ <u>5,634,134</u>
Cash Basis Net Assets:				
Unrestricted			<u>5,634,134</u>	<u>5,634,134</u>
Total cash basis net assets			\$ <u>5,634,134</u>	<u>5,634,134</u>

See notes to financial statements.

City of Montezuma
Municipal Light and Power Plant
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit B

	<u>Enterprise Funds</u> <u>Electric</u>
Operating receipts:	
Charges for service	\$ <u>1,840,210</u>
Total operating receipts	<u>1,840,210</u>
Operating disbursements:	
Business type activities	<u>2,675,031</u>
Total operating disbursements	<u>2,675,031</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(834,821)
Non-operating receipts (disbursements):	
Intergovernmental	14,675
Interest on investments	16,431
General obligation bond proceeds	<u>5,079,527</u>
Total non-operating receipts (disbursements)	<u>5,110,633</u>
Excess (deficiency) of receipts over (under) disbursements	<u>4,275,812</u>
Net change in cash balances	4,275,812
Cash balances beginning of year	<u>1,358,322</u>
Cash balances end of year	\$ <u><u>5,634,134</u></u>
Cash Basis Fund Balances	
Unreserved	\$ <u>5,634,134</u>
Total cash basis fund balances	\$ <u><u>5,634,134</u></u>

See notes to financial statements.

City of Montezuma
Municipal Light and Power Plant
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit C

Total enterprise funds cash balances	\$ <u>5,634,134</u>
Cash basis net assets of business type activities	\$ <u>5,634,134</u>
Net change in cash balances	\$ <u>4,275,812</u>
Change in cash balance of business type activities	\$ <u>4,275,812</u>

See notes to financial statements.

City of Montezuma
Municipal Light and Power Plant
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma. The utility has a board appointed on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the business type activities function.

(2) Cash and Pooled Investments

The City of Montezuma Municipal Light and Power Plant's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments are categorized to give an indication of the level of risk assumed by the utility at year end. The Utility's investments are all Category I, which means that the investments are insured or registered or the securities are held by the Utility or its agent in the Utility's name.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4,579,226 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds Payable

Year Ending June 30,	Electric Revenue Notes, Series 2004 Principal	Electric Revenue Notes, Series 2004 Interest	Electric Revenue Notes, Series 1999 Principal	Electric Revenue Notes, Series 1999 Interest	Total Principal	Total Interest
2005	170,000.00	196,470.00	55,000.00	13,547.50	225,000.00	210,017.50
2006	175,000.00	193,920.00	55,000.00	11,127.50	230,000.00	205,047.50
2007	180,000.00	190,595.00	60,000.00	8,680.00	240,000.00	199,275.00
2008	180,000.00	186,455.00	65,000.00	5,980.00	245,000.00	192,435.00
2009	185,000.00	181,685.00	65,000.00	3,022.50	250,000.00	184,707.50
2010	260,000.00	176,320.00			260,000.00	176,320.00
2011	265,000.00	168,130.00			265,000.00	168,130.00
2012	275,000.00	159,120.00			275,000.00	159,120.00
2013	290,000.00	149,220.00			290,000.00	149,220.00
2014	295,000.00	138,345.00			295,000.00	138,345.00
2015	310,000.00	126,987.50			310,000.00	126,987.50
2016	320,000.00	114,587.50			320,000.00	114,587.50
2017	335,000.00	101,307.50			335,000.00	101,307.50
2018	350,000.00	87,070.00			350,000.00	87,070.00
2019	365,000.00	71,845.00			365,000.00	71,845.00
2020	380,000.00	55,602.50			380,000.00	55,602.50
2021	400,000.00	38,312.50			400,000.00	38,312.50
2022	<u>415,000.00</u>	<u>19,712.50</u>	<u> </u>	<u> </u>	<u>415,000.00</u>	<u>19,712.50</u>
	<u>\$ 5,150,000.00</u>	<u>2,355,685.00</u>	<u>300,000.00</u>	<u>42,357.50</u>	<u>5,450,000.00</u>	<u>2,398,042.50</u>

(4) Pension and Retirement Benefits

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the Utility were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the Utility were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June

30, 2004, 2003, and 2002 were \$13,776, \$11,640, and \$10,952, respectively, equal to the required contributions for each year.

(5) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2004 is as follows:

Type of Benefit	Amount
Vacation	\$ 20,312

This liability has been computed based on rates of pay as of June 30, 2004.

(6) Risk Management

The City of Montezuma Municipal Light and Power Plant is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ending June 30, 2004. The statements create new basic financial statements for reporting the Utility's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the Utility's governmental and business type activities.

City of Montezuma
Municipal Light and Power Plant
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - Proprietary Funds
Required Supplementary Information
Year ended June 30, 2004

	Proprietary Funds Actual	<u>Budgeted Amounts</u>		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 16,431	14,000	14,000	2,431
Charges for service	1,840,210	2,277,824	2,277,824	(437,614)
Miscellaneous	14,675	0	0	14,675
Total receipts	<u>1,871,316</u>	<u>2,291,824</u>	<u>2,291,824</u>	<u>(420,508)</u>
Disbursements:				
Business type activities	<u>2,675,031</u>	<u>2,291,824</u>	<u>2,291,824</u>	<u>(383,207)</u>
Total disbursements	<u>2,675,031</u>	<u>2,291,824</u>	<u>2,291,824</u>	<u>(383,207)</u>
Excess of receipts over disbursements	(803,715)	0	0	(803,715)
Other financing sources, net	<u>5,079,527</u>	<u>0</u>	<u>0</u>	<u>5,079,527</u>
Excess of receipts and other financing sources over disbursements and other financing uses	4,275,812	0	0	4,275,812
Balances beginning of year	<u>1,358,322</u>	<u>478,757</u>	<u>478,757</u>	<u>879,565</u>
Balances end of year	\$ <u>5,634,134</u>	<u>478,757</u>	<u>478,757</u>	<u>5,155,377</u>

See accompanying independent auditor's report.

City of Montezuma
Municipal Light and Power Plant
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the business type activities function.

See accompanying independent auditor's report.

City of Montezuma
Municipal Light and Power Plant
Schedule of Indebtedness
Year ended June 30, 2004

Schedule 1

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric	March 1, 1999	4.15-4.65%	\$ 545,000	355,000	0	55,000	300,000	15,940	4,782
Electric	March 1, 2004	1.50-4.75%	5,150,000	<u>0</u>	<u>5,150,000</u>	<u>0</u>	<u>5,150,000</u>	<u>0</u>	<u>61,945</u>
Total				<u>\$ 355,000</u>	<u>5,150,000</u>	<u>55,000</u>	<u>5,450,000</u>	<u>15,940</u>	<u>66,727</u>

See accompanying independent auditor's report.

City of Montezuma
Municipal Light and Power Plant
Bond and Note Maturities
June 30, 2004

Schedule 2

Year Ending June 30,	Revenue Note Electric <u>Issued March 1, 2004</u>		Revenue Note Electric <u>Issued March 1, 1999</u>		Revenue Note Electric Total
	Interest Rate	Amount	Interest Rate	Amount	
2005	1.50%	\$ 170,000	4.40%	\$ 55,000	\$ 225,000
2006	1.9%	175,000	4.45%	55,000	230,000
2007	2.3%	180,000	4.50%	60,000	240,000
2008	2.65%	180,000	4.55%	65,000	245,000
2009	2.9%	185,000	4.65%	65,000	250,000
2010-2014	3.15-3.85%	1,385,000			1,385,000
2015-2019	4.00-4.45%	1,680,000			1,680,000
2020-2022	4.55-4.75%	<u>1,195,000</u>			<u>1,195,000</u>
		<u>\$ 5,150,000</u>		<u>300,000</u>	<u>5,450,000</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Trustees
City of Montezuma Municipal Light and Power Plant
Montezuma, Iowa

We have audited the financial statements of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City of Montezuma Municipal Light and Power Plant's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of Montezuma Municipal Light and Power Plant. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that,

in our judgment, could adversely affect City of Montezuma Municipal Light and Power Plant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Montezuma Municipal Light and Power Plant and other parties to whom the City of Montezuma Municipal Light and Power Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

August 4, 2004

City of Montezuma
Montezuma Light and Power Plant
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review the control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. Don or Marlene should review customer histories periodically for cash payments and compare cash receipt reports to deposits.

City of Montezuma
Municipal Light and Power Plant
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City of Montezuma Municipal Light and Power Plant. The maximum deposit amounts stated in the resolutions were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the business type activity function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We did not note disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of Utility officials or employees were noted.

II-E-04 Business Transactions - Business transactions between the Utility and City of Montezuma officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Materials and Labor	\$2,217

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the mayor violate this section.

Recommendation - Utility should consult legal counsel regarding this issue.

Response - Utility will consider this.

Conclusion - Response accepted.

City of Montezuma
Montezuma Light & Power Plant
Schedule of Findings
Year ended June 30, 2003

- II-F-04 Bond Coverage - Surety bond coverage of City of Montezuma Municipal Light and Power Plant officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-04 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-H-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City of Montezuma Municipal Light and Power Plant's investment policy.
- II-I-04 Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution.

City of Montezuma
Municipal Light and Power Plant

Staff

This audit was performed by:

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Royal R. Roland, CPA
Edwin L. Dieleman, CPA